

March 26, 2003

Mr. Kevin C. Mulder
Executive Director
Legal Services of Northwest Ohio, Inc
520 Madison Avenue
Toledo, Ohio 43604-1371

Dear Mr. Mulder:

Enclosed is our final report of Legal Services of Northwest Ohio's compliance with the program integrity requirements of 45 CFR Part 1610. Your comments on the draft report are included as Appendix I. The final report contains no recommendations because you have taken corrective action on the three problems the audit disclosed.

A copy of this report is also being sent to the Chair of the Board of Directors of your program and to LSC management.

Thank you and your staff for the courtesy and cooperation extended to the audit team. Please contact David Young at 202-336-8837 or me at 202-336-8869 if you have any questions.

Sincerely,

Leonard J. Koczur
Acting Inspector General

Enclosure

cc: Randi Youells, Vice President for Programs
Legal Services Corporation

William J. Bingle, Chairman of the Board,
Legal Services of Northwest Ohio

**LEGAL SERVICES CORPORATION
OFFICE OF INSPECTOR GENERAL**

**REVIEW OF GRANTEE'S
TRANSFER OF FUNDS
AND COMPLIANCE WITH
PROGRAM INTEGRITY STANDARDS**

**Grantee: Legal Services of Northwest Ohio, Inc.
Recipient No. 436183**

Report No. 03-02

March 2003

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RESULTS OF AUDIT

The Legal Services Corporation (LSC) Office of Inspector General (OIG) conducted this audit to determine whether the Legal Services of Northwest Ohio (grantee) complied with certain requirements of 45 CFR Part 1610. This regulation requires grantees to maintain objective integrity from any organization that engages in activities prohibited by the LSC Act, LSC appropriations acts and LSC regulations. To do so, grantees must be legally separate from such organizations, not transfer LSC funds to them, not subsidize any restricted activities with LSC funds, and maintain physical and financial separation from them. An exception applies for transfers of LSC funds solely for private attorney involvement (PAI) activities.

The audit provides reasonable, but not absolute, assurance that the grantee, Legal Services of Northwest Ohio (grantee), complied with Part 1610 between January 1, 2001 and September 30, 2002, the period covered by our review. The grantee was closely associated with an organization, Advocates for Basic Legal Equality (ABLE), that engaged in restricted activities but was physically and financially separate from that organization.

Although we found no violations of the program integrity regulation, the following problems needed to be addressed:

- The grantee's articles of incorporation stated that the grantee was organized for the benefit of ABLE.
- Applicants did not attest to their citizenship or eligible alien status at one office.
- Two contracts with a private attorney had no expiration date.

Subsequent to our site visit, the grantee 1) amended its articles of incorporation to eliminate the reference to the grantee as organized for the benefit of ABLE, 2) amended its PAI client intake application form to ensure clients attested to their citizenship or provided appropriate documentation of their alien eligibility, and 3) amended the attorney's open contracts to specify termination dates. Because the grantee has taken corrective action for three of the issues, we are not making recommendations.

The grantee agreed with our draft and provided additional information concerning the finding that some applicants did not attest to their citizenship or provide adequate documentary evidence of their eligible alien status (see page 2).

PHYSICAL AND FINANCIAL SEPARATION

The grantee and ABLE have a close relationship but are physically and financially separate. The two organizations are separately incorporated but

share the same board of trustees. They are located on adjacent floors of the same building. Signs clearly distinguish between them. The grantee maintains separate accounting, payroll and timekeeping systems that ABLE operates under contract for the grantee. ABLE provides the grantee with case intake services. The grantee uses non-LSC funds to reimburse ABLE for its services. The two organizations have separate personnel, different letterhead, and separate advertisements in the local telephone book.

The relationship between the grantee and ABLE could have been misinterpreted because of a statement in the grantee's articles of incorporation. The third article of incorporation stated that the grantee was organized, among other things, to "operate for the benefit of, perform the functions of and carry out the purposes of ABLE and the Legal Assistance Foundation of Northwest Ohio." Grantee management stated that this language was included because ABLE's Board of Trustees believed that the grantee could operate as the LSC-funded organization that did not become involved in restricted and prohibited activities, but remain under the umbrella of ABLE. The anticipated arrangement was never implemented. On November 21, 2002, the grantee's Board of Trustees eliminated the references to ABLE and the Legal Assistance Foundation of Northwest Ohio from the third article of incorporation. This action corrected the potential for misinterpretation of the relationship between the grantee and ABLE.

CITIZENSHIP AND ALIEN ELIGIBILITY

The grantee's Private Attorney Involvement (PAI) program in Wood County did not ensure that applicants attested to U.S. citizenship or provided appropriate documentation supporting eligible alien status as required by LSC regulation Part 1626, *Restrictions on legal assistance to aliens*. The grantee's records indicate that 32 clients were not asked to attest to citizenship or document resident alien status in 2001.

LSC Regulation, Part 1626, prohibits grantees from providing legal assistance to ineligible aliens. The regulation requires applicants provide to the grantee either a written attestation of their U.S. citizenship or appropriate documents verifying their alien eligibility.

The Fremont office, which oversees the Wood County PAI program, did not ask clients to attest to their citizenship or alien eligibility status. The office's Managing Attorney acknowledged that the application form inadvertently did not include a section for citizenship attestation or documenting alien eligibility and that pro-bono attorneys had not been instructed to obtain citizenship information from applicants. Subsequent to completion of on-site audit work, the application form was revised to include a section for the clients to attest to their U.S. citizenship or document their alien eligibility.

The grantee stated that its experience in the region where the applications were taken indicated that the applicants were most likely eligible. However, there was no citizenship attestation or alien registration documentation available that showed that the clients were eligible. LSC regulation 1626 requires that applicants attest to their U.S. citizenship or provide adequate documentation of their alien eligibility before they are provided legal services.

OPEN ENDED CONTRACTS

Two contracts with a private attorney for work under grants from Lucas County and from the Area Office on Aging did not have termination dates. Good business practices require that all contracts have a definite period for completion. The Lucas County contract was signed on May 23, 2001, and the contract for the Area Office on Aging contract was effective on August 1, 2001. On December 6, 2002, the Executive Director provided documentation that terminated the attorney's contract for work involving Lucas County, and extended until March 31, 2002, the attorney's contract involving work with the Area Office on Aging. The Executive Director's has taken appropriate action to provide termination dates for these two contracts; therefore, we are making no recommendation.

BACKGROUND

The Legal Services of Northwest Ohio (grantee) is a nonprofit corporation organized to provide legal services to indigent individuals who meet LSC eligibility guidelines. The grantee is headquartered in Toledo, Ohio, and maintains four other offices in the northwestern region of Ohio. At the time of our audit, the grantee was staffed with 19 attorneys, 4 paralegals, and 11 other employees who assist case handlers and provide administrative support services. The grantee received total funding of over \$1.3 million during the fiscal year ended December 31, 2001. LSC provided about 48 per cent of total funds received by the grantee during that year.

On January 1, 2000, the grantee served 15 counties, with headquarters in Toledo, and satellite offices in Fremont, Findlay, Sandusky, and Defiance. The Fremont office is both a basic and migrant farmworker office. An office in Bowling Green was closed in 2002.

The grantee is closely affiliated with Advocates for Basic Legal Equality (ABLE), an organization which engages in activities that are restricted or prohibited by the LSC Act and regulations. ABLE provides the grantee administrative and program services that are paid for with non-LSC funds.

OBJECTIVES, SCOPE, AND METHODOLOGY

The audit assessed whether the grantee complied with requirements established in 45 CFR Part 1610 relating to the transfer of funds to other organizations and program integrity standards.

Our review covered the period January 1, 2001 through September 30, 2002. We began our audit work in September 2002, and visited the grantee's offices in Toledo, Fremont, Sandusky, and Findlay, Ohio during the period from November 4, 2002 through November 15, 2002. At LSC headquarters in Washington D.C., we reviewed materials pertaining to the grantee including its Certifications of Program Integrity, audited financial statements, grant proposals, and recipient profile. OIG staff also discussed issues relating to the grantee with LSC management officials.

During the on-site visit, we interviewed and collected information from the Executive Director, case handlers, and other staff. We ascertained whether the grantee employees were generally knowledgeable regarding the guidelines set forth in Part 1610. The audit included an assessment of the grantee's policies and procedures applicable to the transfer of funds to other organizations and program integrity requirements.

We met with staff from the Advocates for Basic Legal Equality, including the Executive Director, Controller, Controller staff, and Case Intake staff. ABLE is closely associated with the grantee, and we ascertained whether these ABLE employees were knowledgeable of the both the corporate distinction and the actual separation of corporate responsibilities between ABLE and the grantee.

We gained an understanding of the client intake process used by the grantee. We identified the grantee's controls regarding its oversight of its Private Attorney Involvement program. We met with the Executive Director of the Toledo Bar Association to discuss the subcontract it has with the grantee to provide PAI services in the Toledo area for the grantee.

We identified and reviewed the case files for cases that had been filed in court to determine if the grantee had engaged in any restricted or prohibited activity. The case files were discussed with the Executive Director or with the attorneys who managed or were assigned to the case.

We assessed the process used by the grantee, through its contract with ABLE, to allocate direct and indirect costs to LSC and non-LSC funds. Policies and procedures relating to payroll and timekeeping were evaluated. The grantee's employees were interviewed to determine understanding of the process. We reviewed the grantee's financial accounts for vendors including contractors, employees, and consultants. We identified 82 commercial vendors and 12 current and former employees for a detailed review of their activity. Of those

selected, 34 of the commercial vendors had no activity during our audit period. Of the remaining 60, we reviewed 438 transactions totaling over \$725,000.

All agreements between the grantee and other organizations and individuals were requested. We reviewed all materials provided, including grant funding instruments, leases, and contracts.

We performed the audit in accordance with *Government Auditing Standards* established by the Comptroller General of the United States and under authority of the Inspector General Act of 1978, as amended and Public Law 107-77, incorporating by reference Public Law 104-134.

APPENDIX I

Grantee's Comments on Draft Report

APPENDIX II

OIG Staff Responsible for the Audit and the Report

David Young (Auditor-in-Charge)

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